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SUBJECT: INDIAN HIMALAYAN STATE SIKKIM SLOWLY OPENING FOR TRADE AND
TOURISM

11. (SBU)Summary: From April 13-19 CG visited the Himalayan state of Sikkim to assess its political, social and economic issues. An independent kingdom until its annexation by India in 1975, Sikkim offers an interesting contrast to its neighbors, Bhutan, Nepal and Tibet, with which it shares many ethnic and cultural links. The state politics are stable. Relations between its three main communities, the Bhutias, Lepchas and Nepali are good and it is seeing an upturn in tourism as a more peaceful alternative to Nepal. However, poor infrastructure and access permits are impediments to greater economic growth. In addition, business and government officials are reluctant to open up full trade with China through the Nathu La pass. While generous government grants and subsidies are helping fuel development and power generation projects, some observers expressed concern that the GOI is creating a culture of dependency in the state. Sikkim's unique status as the only state in East India free from insurgency and its relatively pristine Himalayan hinterland offer great potential for tourism and service sector industries, if the development process is managed well and incorporates environmental safeguards. End Summary.

12. (SBU) Sikkim was an independent Buddhist kingdom until 1975 when it was annexed by India. Growing political instability in 1973 and protests by the large disaffected Nepali population, some say instigated in part by the GOI, created a situation, which India felt warranted its deployment of troops. By 1975 the GOI instituted a plebiscite on merger with India, and forced the abdication of the King (Chogyal). Indian interference in Sikkim was motivated by fears that China would use the instability as an opportunity to further its claim on a kingdom that traditionally had been a feudatory of Tibet. It was not until 2003 that China formally renounced its claim to Sikkim.

13. (SBU) Although India's 1975 annexation broke the political dominance of the Tibetan Bhutia minority (18 percent) and gave greater power to the majority Nepali population (70 percent), ethnic relations are peaceful. The indigenous Lepchas (12

percent) remain mostly undisturbed in the remote rural areas of North Sikkim. While regretting their loss of independence, few contacts, not even ethnic Bhutias, expressed strong resentment with India's annexation of Sikkim. Most observers noted that the GOI has been spending a significant amount of money on improving infrastructure and education in the state, money that small Sikkim would not have had if it had been independent. The GOI's Planning Commission is providing assistance of almost USD one billion; a sizeable budget given the state has a population of only 540,000. Anthropologist Anna Balikci (protect), working with the Namgyal Institute of Tibetology in Gangtok, felt the GOI assistance was creating a culture of complacency and dependency in the rural communities and breaking down normal social and economic patterns.

14. (SBU) In addition to noting the good ethnic relations in Sikkim, all observers, whether government officials or private individuals did not see immediate negative repercussions from the civil unrest and Maoist insurgency in neighboring Nepal. Director General of Police C.M. Ravindran said that there was no evidence of Nepali Maoists crossing the border from Nepal and insinuating themselves into the local Nepali community. Nor, was there any influx of Nepali refugees fleeing instability. Sikkim is also fortunate so far in being unaffected by Maoists insurgencies in neighboring states of Bihar and West Bengal, or the more aggressive Nepali politics in West Bengal. Local Nepali activists in West Bengal had sought an autonomous Gorkhaland centered on the hill town of Darjeeling, an area once part of Sikkim prior to the British Raj.

15. (U) Problems in Nepal have helped Sikkim in attracting foreign tourists. Ecotourism Conservation Society of Sikkim (ECOSS) founder P.D. Rai remarked that the number of foreign tourists has remained static at around 15,000 per year, but this recent season was seeing a rise in foreign tourist numbers as

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trekking and tour groups were redirecting their traffic to Sikkim. Domestic tourist numbers have also seen a consistent rise of 12 to 15 percent in recent years. In their interaction with CG, members of the Confederation of Industries (CIS) noted growth in sectors related to the service and tourism industry such as hotel, food and beverage businesses.

16. (U) However, the attraction of Sikkim's mountainous isolation, while a draw for tourists, has complicated economic development as infrastructure remains inadequate. Sikkim has no airport. There are irregular helicopter flights from the nearest airport in Bagdogra, West Bengal to Sikkim's capital Gangtok. Access to Sikkim's tourist areas typically involves driving at least five hours from Bagdogra airport on narrow, sharply winding roads, without shoulders, making a precipitous drop of several thousand feet a very real danger. Washouts and rockslides are ever-present obstacles. The Sikkim government also requires special permits for all foreigners to visit the state. The permits are usually issued but still take 30 days to process, creating an additional bureaucratic impediment to visitors.

17. (SBU) The GOI had agreed to open border trade with China through Nathu La pass on the border with Tibet to stimulate trade and development, but the opening has been delayed from October 2005 to May 2006 and only will be open for four hours a day, twice a week. Local business people and state government officials were wary of full trade with China for security and business reasons. Many still remember the 1962 Sino-Indian war and the 1967 Nathu La Chola skirmishes. Senior state government officials and military officers generally expressed concern about closer economic relations with China and indicated that the effort was being driven by the Central government. Local business people including CIS President L.B. Chhetri said that they were afraid they would be unable to compete with inexpensive Chinese imports and so the business community was not encouraging the opening of trade through Nathu La. Traveling on the road to Nathu La, CG noted that the road was very narrow, steep and washed-out in places, and inadequate to

support significant commercial traffic. The existing military and tourist traffic was already more than the road could reasonably sustain. At 14,000 ft, Nathu La is also often blocked by heavy snow, rain and fog. CG was only able to reach 12,000 ft altitude on his visit as the road was covered by a foot of snow.

¶18. (SBU) In his meeting with CG, Chief Minister Pawan Chamling recognized the limitations on Sikkim's development due to its relative isolation and poor infrastructure. He said the funding from GOI is helping to improve the roads and his government had acquired land for an airport in Pakyong, 20 miles Southwest of Gangtok. The Airports Authority of India is expected construct the airport in three years. The Sikkim government, though, was also receptive to a private investor constructing and operating the airport if permitted by the central government. The CM also said that he was planning to develop sectors in which Sikkim had a comparative advantage: tourism, related services and agriculture. In March Chamling toured Europe, traveling to France, England, Germany, Holland and Switzerland looking for investors and tourists. He opened the Sikkim booth at the Tourism Bourse in Berlin and signed two memoranda of understanding with a Swiss company for producing jewelry and a Dutch company for flower processing and export.

¶19. (U) Hydropower generation is also seeing significant growth in Sikkim. CG visited the National Hydroelectric Power Corporation's (NHPC) Teesta River Stage V power project at Sirwani. That project, a three turbine, run-of-the-river design, is on schedule to be completed by February 2007 and will generate 510 MW. Just 12 percent of the power generated will be sufficient for Sikkim's needs (Sikkim's total power demand is 51 MW). The rest will be used to stabilize the Eastern power grid. Sikkim's total hydroelectric power generation capacity is

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estimated to be 8000 MW. Existing and proposed hydro projects along the Teesta and Rangit rivers should see up to 4759 MW being generated by 2010. Sikkim anticipates revenues from sale of power going from a mere USD five million presently, to USD 40 million by 1010, and USD 233 million in 2015.

COMMENT

¶10. (SBU) Sikkim's image as a remote Shangri La is changing with the prospects of Nathu La's opening and other efforts to attract tourists and business. From a "Far Horizon" it is becoming a "Brave New World." Anthropologist Balikci's concerns about the impact on the Sikkimese people by the GOI's large expenditures in the state, offers an echo of Huxley's social commentary. The GOI appears to have bought a happy compliance and complacency from the Sikkimese, which is undermining the traditional rural norms and will be further exacerbated by the growing influx of tourists and development. The Sikkim government will have to manage the implications of the economic change it is fostering -- whether on its people or environment. Sikkim is only just starting this process of economic growth, so the full impact is not yet manifest but failure by the state government to plan effectively for the impending changes could result in greater social dislocation and environmental degradation.
JARDINE